

Annual Report

**For Year Ending
December 31, 1991**



AUTOMOBILE INSURANCE BOARD



92-05129/

19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, Canada T5J 3Z5 403/427-5428

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs
229 Legislative Building
Edmonton, Alberta

Honourable Sir:

Pursuant to R.S.A. 1980, Chapter 1-5, the Insurance Act, Section 344(2), we respectfully submit herewith, the twentieth report of the Alberta Automobile Insurance Board, for the year ending December 31, 1991.

A handwritten signature in cursive script, appearing to read "A.H. Wachowich".

A.H. Wachowich, Chairman

A handwritten signature in cursive script, appearing to read "P.G. Galway".

P.G. Galway

A handwritten signature in cursive script, appearing to read "J.M. Tweddle".

J.M. Tweddle

A handwritten signature in cursive script, appearing to read "R.B. Bannerman".

R.B. Bannerman

ALBERTA AUTOMOBILE INSURANCE BOARD

1991 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 338(1) of The Insurance Act, is empowered under section 339 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under The Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by The Insurance Act to report their experience to a Canadian statistical plan, the results of which are compiled annually in an Insurance Bureau of Canada publication which are then analyzed by the Board's actuarial consultant. These analyses are used in weighted proportions with the insurers' own statistics and those of insurance underwriting groups to establish a base for any rate maintenance or rate change to be considered by the Board. After relatively stable experience through the early 1980's, the 1985 results showed a marked deterioration, particularly for Private Passenger vehicles and that trend has continued each year since. Competition served to delay any general increase in premium level until, by late 1988, insurers accepted the inevitable and initiated corrective measures. The cost of automobile insurance coverage continued to increase through 1991.

MARKET

The premium increases for Private Passenger vehicles that began in the latter part of 1988 have continued through 1991. The increasing cost of settlement of bodily injury claims and poor comprehensive coverage results aggravated by storm related catastrophes mean the outlook for 1992 is for further premium increases.

Successive years of unacceptable bottom line results have been manifested in increasingly restrictive underwriting practices. Drivers with no recent losses or convictions continue to enjoy ready access to the market; however, those with some frequency of claims are offered renewal at higher deductibles for physical damage coverages or, where such action does not address the problem, are denied renewal.

The Facility Association is the industry's mechanism for providing insurance to those consumers encountering difficulty in obtaining coverage in the regular market. The Board monitors the Association's program for all coverages. With the re-underwriting of portfolios by the standard market, the Facility Association market share has increased. This situation is unlikely to correct itself until insurers see an acceptable balance between premium income and losses.

MEETINGS

In 1991, the Board held 9 meetings during which 112 applications were examined. This number compares with 129 applications in 1990, 135 in 1989 and 84 in 1988. In 1991, a total of fifty-two applications were not approved as submitted. One application was declined, which was subsequently revised, resubmitted and approved. Another fifty-one applications were approved subject to specified modifications.

LIAISON

Representatives of the Automobile Insurance Board met with the executive members of the following industry associations during 1991 in order to maintain dialogue with the industry's various component groups:

Insurance Bureau of Canada
Insurance Brokers Association of Alberta
Facility Association

and also attended:

Insurers Brokers Association of Alberta Annual
Convention

These meetings occurred in September and October 1991.

INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are generally resolved by the provision of a detailed explanation. Appropriate action to rectify the disparity for the individual and/or the general public is taken by the Board. The Board office received 906 inquiries in 1991.

BENEFITS

The current compulsory Third Party Liability limit of \$200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least \$300,000 which would involve an increase of approximately 4% to the Third Party Liability premium.

STAFF

Susan Steeves, B.A., F.I.I.C., continued as Administrator to the Board. Marlene Boyarzin is the Clerk Typist.

MEMBERSHIP ON THE BOARD

Robert B. Bannerman, B. Comm., F.I.I.C., C.I.B. (Alta) of Calgary was appointed to the Board for a three year term effective February 15, 1991.

GENERAL

Report on Premium Stability

In 1990, the Board undertook an examination of the current system of compensating injury victims of motor vehicle accidents and possible alternatives. The Board submitted its report to the Minister in October 1991.

The study was undertaken in three stages. The Board first considered the cost of insurance to Alberta motorists. Next came an analysis of premium stability in the short and long terms. The third stage was to examine methods to control increases in premium.

A review of insurance buying between 1972 and 1989 showed that after adjustment for inflation, the average premium actually declined over the period. Moreover, motorists were opting for more extensive coverage by 1989.

On the other hand, claim costs have risen dramatically since 1985. The study confirmed that growth in settlements and awards for bodily injury claims are mainly responsible.

Competition stalled premium increases until 1989. The accumulated shortfall in pricing along with continuing deterioration in loss experience has resulted in a situation of chronic price deficiency; adequacy of premium level is a moving target. Moreover, there is no mechanism operating in the current system to control the increase in frequency and severity of injury claims.

The study entailed a survey of injury claims where compensation was provided by third party liability and accident benefits. The examination of files settled in 1988 and 1990 allowed for a number of observations that include: (1) Claimants with minor injuries are overcompensated on the tort side of the system compared to other accident victims. (2) Claimants with catastrophic injuries who have right of tort action are under compensated relative to other injured claimants. (3) Provisions under the no fault benefits of the current system are inadequate. (4) Claimants who are at fault are under compensated for economic loss compared to those with tort claims. (5) In either instance, payments were subject to delays.

The problem of the growth in claim costs and resulting upward pressure on premium level has been identified. These findings raise further questions on the fair allocation and timely payment of compensation.

If the features of the current tort system are considered desirable and critical to determination of fair compensation, then the public must reconcile themselves to

increasing premiums to support the system. If the public is neither willing nor able to continue with the current rate of increase, some measure of intervention is necessary.

The study explored two different methods of controlling claim costs. One is to reduce the number and seriousness of injuries sustained in motor vehicle collisions. Fifteen recommendations relating to traffic safety were put forward for Government consideration. Among the recommendations are diligent enforcement of the seatbelt law, double penalties for speed and other offenses most often committed in injury accidents, focus police efforts on large deviations to traffic laws, greater use of short term suspensions and upgrading the Check Stop program to deter and detect drinking drivers. Another group of recommendations deals with measures that focus on young people and include: an education program for school age children designed to foster appropriate attitudes, and raising the minimum legal age for consumption of alcohol and for driving. The study recommends a graduated licensing system for all new drivers. The study also supports improved vehicle safety standards and improved highway design. Introduction of trauma centres and improved rehabilitation centres round out the list.

Reducing the frequency and severity of accidents should be a priority. The Government should develop a unified policy of traffic safety measures among the various ministries with a connection to road accidents. They must work with such funding and resources as may be available.

Improved performance on the road translates to reduced demand for compensation from the insurance system and, thereby, reduces upward pressure on premiums. The second method of reducing future premium costs is to change compensation features of the current system.

After considering the strengths and weaknesses of the current and alternate compensation system, the Board presented three alternatives to the current system. To varying degrees, the three options would serve to lower expected claim costs in the short term and slow the growth of claim costs over the long term.

Option 1 contemplates a number of tort reforms. One would limit right of recovery for all non pecuniary general damage claims through a \$10,000 deductible on such damages. The claim survey described earlier revealed that for bodily injury claims with a total settlement of \$10,000 or less, over 83% of the award is for general damages. These claims are for minor injuries where recovery is expected with little long term impact on quality of life. The report does not say these awards are unjustified, but that they do represent overcompensation relative to the amounts that the seriously and catastrophically can expect to receive.

The \$10,000 deductible should be considered in conjunction with a proposed increase in the ceiling for non

pecuniary general damages from \$225,000 to \$300,000 (expressed in 1991 dollars). The intent is to more fairly allocate available funds while slowing the growth in claim costs.

Option 1 would improve on the existing schedule of no fault benefits but they would remain modest.

Option 2 contemplates the same tort reform as Option 1. Option 2 differs in that no fault benefits would be broader in scope and more generous. The comprehensive no fault benefits program would provide more adequate financial aid to injured persons who are at fault and those who have not yet settled their tort claim. The Board believes this option might adequately resolve the problem of escalating premiums over the short and long term.

Option 3 is threshold no-fault. This option promises the most control over the rise in claim costs; however, it also imposes the greatest restrictions on tort rights. It might merit serious consideration only if the first two options proved inadequate.

Rating Criteria

As of October 1991, the Board permitted insurers to separate Edmonton and Calgary into separate rating territories for compulsory coverage.

The courts have yet to render final decisions on the use of age, gender and marital status as rating criteria for young drivers. The case of Murray Watters v. The Co-operators is before the Alberta Court of Appeal. The Ontario case of Bates v. Zurich is before the Supreme Court of Canada.